

Message Text

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ORIGIN SS-15

INFO OCT-01 CCO-00 SSO-00 ISO-00 /016 R

66011

DRAFTED BY:S/S-O:JETOBIN

APPROVED BY:S/S-O :SESTEINER

-----036033 300038Z /14

O 300007Z DEC 77 ZFF4

FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 309876 TOSEC 130025

FOLLOWING REPEAT BRUSSELS 19514 ACTION TREASURY SECSTATE
DATED DEC 29:

QTE:C O N F I D E N T I A L BRUSSELS 19514

USEEC

TREASURY FOR UNDER SECRETARY SOLOMON ONLY
STATE FOR UNDER SECRETARY COOPER ONLY
STATE ALSO PASS STR FOR AMBASSADOR STRAUSS ONLY

E.O. 11652: GDS

TAGS: ETRD, EEC

SUBJECT: STEEL CRISIS

REF: STATE 308221

1. UPON RECEIPT REFTEL DECEMBER 28 I TELEPHONED LUXEM-
BOURG WHERE DAVIGNON WAS MEETING WITH CONSULTATIVE
COMMITTEE AND HAD PASSED TO HIM REQUEST PARA 2 REFTEL.

2. IN MEETING WITH DAVIGNON DECEMBER 29, HE SAID HE HAD
HONORED REQUEST, AND THAT WHAT COMMISSION SPOKESMAN WILL
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STRESS IN BRIEFING PRESS DEC. 30 IS THAT WHAT MATTERS IS
THE DIFFERENCE BETWEEN INTERNAL PRICES AND THE BASE PRICE.

3. DAVIGNON AGREES ON AVOIDANCE OF IDENTIFICATION OF
EC BASE PRICE SYSTEM WITH U.S. TRIGGER PRICES AND AGREES
ALSO THAT WE SHOULD REFRAIN FROM COMPARISONS OF THE
RELATIVE PROTECTIONIST EFFECTS OF THE TWO SYSTEMS.

4. HE AGAIN PROPOSES THE CLOSEST EXPERT CONSULTATION AFTER PUBLICATION OF OUR RESPECTIVE PRICE SYSTEMS SO THAT THE RATIONALE USED BY BOTH THE U.S. AND THE EC ABOUT HOW THE DIFFERING PRICES WERE CALCULATED IS DEFENSIBLE AGAINST CHALLENGES.

5. DAVIGNON ASSERTS THAT STATEMENT I MADE TO HIM UNDER INSTRUCTION ABOUT HOW U.S. TRIGGER PRICES ARE CALCULATED AND HOW THE EC SYSTEM OF BASE PRICES IS CALCULATED IS NOT COMPLETELY CORRECT. HE SAYS THE COMMISSION SYSTEM IS BASED ON "THE BEST AVAILABLE EVIDENCE" OF COSTS OF PRODUCTION, IN JAPAN FOR MOST CATEGORIES, IN SOUTH AFRICA FOR FERRO CHROME PRODUCTS, IN BRAZIL FOR ORDINARY GRADES OF FOUNDRY PIG IRON, AND IN CANADA FOR SOME SPECIALTY PIG IRONS. HE SAYS SOUTH AFRICAN, BRAZILIAN, AND CANADIAN DATA WERE USED BECAUSE FOR THOSE CATEGORIES THEY ARE THE MOST EFFICIENT PRODUCERS. HE ALSO STRESSES THAT THE COMMISSION HAS BEEN PROMISED BY THE JAPANESE THE SAME DATA GIVEN US, AND THAT THE COMMISSION WILL BE REVISING ITS BASE PRICE FIGURES THROUGHOUT JANUARY AS IT LEARNS MORE ABOUT ACTUAL COSTS OF PRODUCTION. HE INSISTS THAT IT WOULD BE MUTUALLY BENEFICIAL IF DURING THIS PERIOD U.S. AND COMMISSION EXPERTS WOULD WORK TOGETHER.

6. DAVIGNON REJECTS OUR VIEW THAT THE EC STEEL PLAN
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GOES WELL BEYOND THE OECD UNDERSTANDING, BUT WELCOMES THE SUGGESTIONS FOR FURTHER CONSULTATIONS. HE SUGGESTS THAT HE WOULD BE AVAILABLE TO MEET WITH ANY INTERESTED MEMBERS OF THE PRESIDENT'S PARTY ON JANUARY 6. HE ASKED ME IN WHAT WAYS WASHINGTON THOUGHT THE EC PLAN WAS INCOMPATIBLE WITH THE OECD UNDERSTANDING AND I REPLIED THAT WHILE I WAS UNINSTRUCTED I SUSPECTED THAT THERE WAS PARTICULAR CONCERN OVER THE QUANTITATIVE IMPLICATIONS OF THE PROPOSED BILATERAL AGREEMENTS. TO THIS HE SAID I MIGHT BE INTERESTED TO KNOW THAT A SENIOR JAPANESE (WHO PRESUMABLY IS EITHER AMAYA OR USHIBA) HAD TOLD HIM JAPANESE UNDERSTANDING WITH THE UNITED STATES WAS THAT JAPANESE STEEL EXPORTS TO THE U.S. WOULD BE 5.4 MILLION TONS IN 1978, AND THAT THE AMERICAN MARKET WOULD BE SHARED APPROXIMATELY 40 PERCENT FOR JAPAN, 40 PERCENT FOR EUROPE, AND 20 PERCENT FOR OTHERS. I ALSO MENTIONED TO DAVIGNON THAT I HAD BEEN INTERESTED IN A REMARK ATTRIBUTED TO A FRENCH OFFICIAL TO THE EFFECT THAT THE COMMUNITY COULD TAKE SIX MONTHS TO NEGOTIATE ITS BILATERALS. DAVIGNON CLOSED THAT DOOR IN A HURRY, SAYING HE INTENDED TO HAVE BILATERALS NEGOTIATED AT LEAST WITH JAPAN, SOUTH AFRICA, AND THE EFTA

COUNTRIES BY MID-FEBRUARY.

7. DAVIGNON GAVE ME AN ADVANCE COPY IN ROUGH FORM OF EC BASE PRICES AND HAD PEETERS EXPLAIN A FEW POINTS ABOUT THE DATA WHICH, PURSUANT TO TELCON WITH SOLOMON, ARE BEING AIRMAILED INTERNATIONALLY TO VUKMANIC.

8. PEETERS SAID THE PRICES WERE BASED ON 17 NIMEX CATEGORIES DIVIDED INTO SUBCATEGORIES TOTALING 140. IMPORTANT POINT WAS THAT EC BASE PRICES WERE "EFFECTIVE PRICES," THAT IS, THEY INCLUDED EXTRAS CALCULATED ON THE BASIS OF EUROPEAN PRACTICE IN PRICING EXTRAS. HE COMPARED THIS TO U.S. SYSTEM WHICH, HE SAID, WOULD INCLUDE
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SEPARATELY A BASIC PRICE AND AN EXTRA ADD-ON CALCULATED AS THE JAPANESE CALCULATE EXTRAS. THE EUROPEAN BASE PRICE INCLUDED IN THE EFFECTIVE PRICE WAS MEANT TO REFLECT REAL COSTS OF PRODUCTION OF THE MOST EFFICIENT PRODUCERS. HOWEVER, THE INCLUSION OF EXTRAS IN THE EC SYSTEM MEANT THAT THE U.S. AND EUROPEAN PRICES WERE REALLY "NOT COMPARABLE." PEETERS ALSO SAID THAT THE COMMISSION HAD EXCLUDED PRICES FOR FIRST TRANSFORMATIONS; THUS THERE WOULD BE NO PRICES FOR DRAWN WIRE OR TUBES. HE ALSO SAID THAT THE EXPORTERS WERE NOW BEING ASKED TO QUOTE PRICES AT POINT OF DESTINATION ON THEIR LICENSE APPLICATIONS, THE IMPLICATION BEING THAT THESE PRICES, NOT THE C.I.F. PRICES, WOULD BE USED IN COMPARING WITH THE COMMUNITY'S BASE PRICE SYSTEM.

9. THE COMMISSION BRIEFER DECEMBER 30 WILL MAKE PUBLIC SOME EXAMPLES OF KEY PRICES. THE COMPLETE PRICE LIST WILL BE DISTRIBUTED TO NATIONAL CUSTOMS OFFICIALS AND THE SYSTEM WILL NOW OFFICIALLY COME INTO EFFECT ON JANUARY 5 RATHER THAN JANUARY 1. HINTON UNQTE CHRISTOPHER

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TOSEC, STEELS
Control Number: n/a
Copy: SINGLE
Sent Date: 30-Dec-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE309876
Document Source: CORE
Document Unique ID: 00
Drafter: O:JETOBIN
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780002-0235
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977123/aaaaacir.tel
Line Count: 156
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ed3249fe-c188-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY
Reference: 77 STATE 308221
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 154942
Secure: OPEN
Status: NATIVE
Subject: STEEL CRISIS
TAGS: ETRD, XT, EEC
To: SECRETARY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ed3249fe-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009